

The Cost of Poor HR and Compliance

Few executives fully understand the costs associated with their people related practices. Use this tool as a quick indication of the areas requiring improvement and opportunities for growth.

How much did **bad hires** cost over the last 12 months? Use an average of 1:1 ratio of their annual pay. For example, an employee with a \$50,000/year salary will cost \$50,000.

How much did **losing any good employees** cost over the last 12 months? Again, use at least a 1:1 ratio

What would be the bottom-line impact of **improving total productivity** by only 5%? Use 5% of total payroll. (For example: \$1,000,000 x .05 = \$50,000)

What is it costing you to keep **poor employees**? (Here's the test: If they quit, would you be relieved or upset?) Use the impact they have on their entire team in your calculation. (For example: team payroll = \$240,000 x .05 = \$12,000)

What "bang for the buck" are you getting for any **benefits** paid? What if you improved that figure by 2%? (Use a benefits cost of 35% of payroll. For example: \$350,000 x .02 = \$7,000)

What added costs are you paying with your annual **workers' compensation** modifier due to your risk management and return to work practices? (For example, a MOD of 1.2 means you pay more than your competition.)

Did you have to manage and/or settle even a low-level **employee claim**? (Statistically, 1 in 4 employers are sued every year with an average verdict of \$250,000)

Cost related to your people practices:

How much revenue will you have to bring in to put these dollars back into your pocket? Use at least a 3 to 1 ratio.

Revenue Total:

This is what your HR and compliance practices are costing you at the most basic level. Roughly, half of the exposure is out-of-pocket while the other half is essentially left on the table. What would you be willing to invest in time and dollars to reduce this number? Would you invest at least 1/10th this amount to start somewhere? As you consider your answer, ask yourself this question: What sales activities and work would you have to do to match that revenue total? (i.e. sell 100 new cars, build two homes, get 50 new patients, book five more installations, etc.)

Now, what are you willing to invest in terms of time and money to reduce this figure? (For example, we are willing to invest \$20,000 to reduce this number by \$50,000.)
